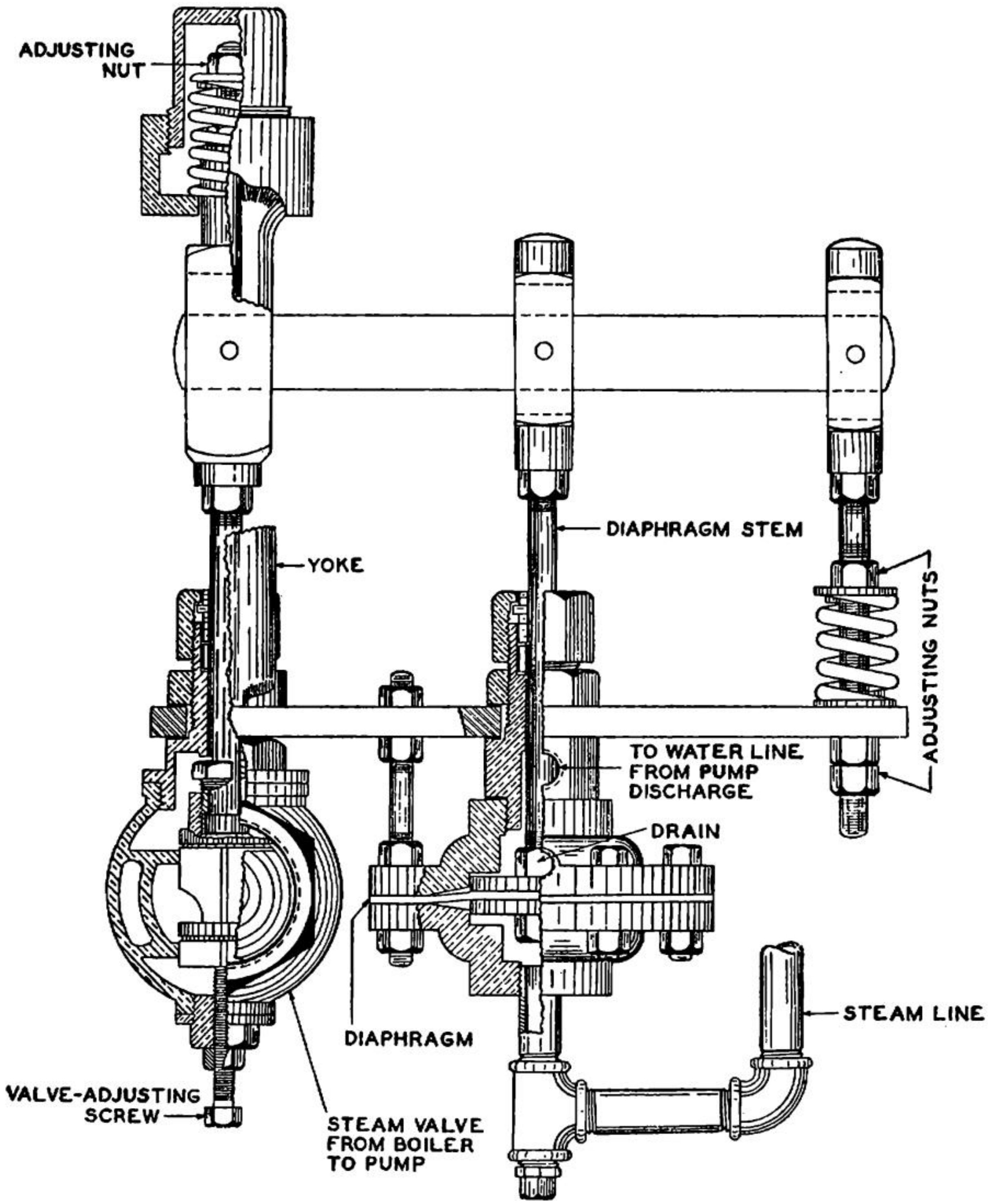

Alluvial

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Letter to Limited Partners Fourth Quarter 2023

The cover image shows a pump control unit within an industrial boiler. This device is used in conjunction with a water-level regulator to maintain the pressure and water level within the boiler. It's a small component of a much larger system, but it does an important job—too little water within a boiler can cause the unit to overheat, which, when additional water is subsequently introduced, is a common recipe for an explosion.

The equipment in the diagram is from an Oklahoma oil and gas well in the 1930s, and is among the type of equipment historically distributed by Alluvial Fund holding MRC Global. Read the letter to learn more about MRC.

Photo Credit
US Department of the Interior, Bureau of Mines -- Mechanical Equipment Used In The Drilling And Production Of Oil And Gas Wells In The Oklahoma City Field, p. 39

Alluvial

CAPITAL MANAGEMENT, LLC

Dear Partners,

Alluvial Fund returned 3.2% in the fourth quarter, bringing our return to 15.1% for the full year. What a market turnaround this quarter saw. Spurred by a change in tone from the Federal Reserve, small-cap stocks snapped out of their doldrums and roared 22% higher in November and December. What had been another miserable year for small-cap and micro-cap stocks turned into a good one. Our portfolio tends to lag when markets make big moves in either direction and this quarter was no exception. Still, because the fund had been tracking well ahead of benchmarks through October, we ended up with a satisfactory result this year, ahead of the micro-cap index and just behind small-caps.

TABLE I: Alluvial Fund LP Returns (%) as of December 31, 2023

	2023	2022	2021	2020	2019	Cumul.	Annual.
Alluvial Fund LP NET	15.1	-14.9	31.0	28.4	18.4	130.1	12.6
Russell MicroCap TR	9.3	-22.0	19.3	21.0	22.4	48.3	5.8
Russell 2000 TR	16.9	-20.4	14.8	20.0	25.7	63.8	7.3
MSCI World Sm+MicroCap NR	15.1	-19.1	15.8	16.5	25.7	66.8	7.6

Partnership began operations 01/01/2017

I use these letters to update you on developments in the portfolio, attempting to eschew fluff and avoid pontificating on the economic trends of the day. I hope when all is said and done, I will have largely resisted the temptation to comment on topics where I have no special expertise or understanding. So, I will confine my observations to this: the return of meaningful interest rates had a sobering effect on investors in 2023. With cash and high-quality bonds once again offering a reasonable return, the allure of speculative cash-burning companies was diminished. The casino grew quieter and this was a good thing. However, now that the Federal Reserve appears to be finished with its aggressive series of rate hikes, the casino appears to be livening up once more. Let the players play. If people want to go back to paying >10x revenues for software companies of dubious quality, I wish them luck. Alluvial will stick to buying shares in cash generating companies at large discounts to a conservative estimate of fair value.

In the quarter, we invested in a highly attractive spin-off security: **Net Lease Office Properties** (NLOP). The word "office" is enough to give many investors chills, and that's why the opportunity existed in the first place and continues to exist. Fortunately, the overwhelming pessimism allowed us to build a large position at a very attractive price.

It's no secret that offices as an asset class are under pressure. Work-from-home policies are putting downward pressure on rents and occupancy, with many companies opting for less space as leases expire. Some REITs, eager to avoid the stigma of office ownership, have chosen to dispose of their office properties however they can. REIT W.P. Carey elected to spin off a hodgepodge of office assets as Net Lease Office Properties. The spin-off was tiny, taxable, and stuffed full of assets about as popular as the flu, so it's no surprise it landed with a thud. Shares of NLOP traded as low as $11 in the first days of trading. We began accumulating shares around $13 and continued to buy as they rose into the upper teens. Even now, as shares hover around $24, I continue to believe NLOP remains very much undervalued.

When I called NLOP a "hodgepodge of office assets", I meant it. The REIT owns everything from quality buildings on 10-15+ year leases to marginal properties on short-term leases that must soon be repositioned or redeveloped. Geographic and industry diversification is good, with no exposure to the most challenged office markets. At $24, NLOP trades at $103 per square foot of leasable space, a large discount to a highly conservative estimate of market value. This discount makes for a potentially interesting investment, but my favorite part of the story here is the built-in catalyst: NLOP was designed to liquidate from the get-go. This REIT is too small to attract a large base of investors and its property holdings are too scattershot to pursue a coherent strategy. The registration document puts it plainly, stating that Net Lease Office Properties would "…seek to maximize shareholder value through dispositions of high-quality office properties…"

TABLE II: Top Ten Holdings, 12/31/23 (%)

Net Lease Office Properties	7.3
P10 Inc.	6.9
Fitlife Brands Inc.	5.8
ECIP Bank Basket	5.0
Unidata S.p.A.	5.0
Crawford United Corp.	4.5
Logistec Corp.	4.3
Rand Worldwide Inc.	3.9
Seneca Foods Corp.	3.8
EACO Corp.	3.5
Total, Top Ten	***50.0%***

The liquidation process is off to a good start. In late December, the company sold off four of its initial 59 properties, and at very good prices. Two properties with solid, long-term leases were sold at an average of $170 per square foot while two properties with expiring leases sold for $87 per square foot. NLOP applied the proceeds of the property sales toward its debt, which I must point out is both high-cost and substantial. The good news is this debt will be reduced rapidly from a combination of robust cash flow from the property portfolio and continued asset sales. Debt reduction will allow more and more cash flow to accrete to shareholders. With so many different assets and an office market in flux, its best to be conservative on NLOP's valuation, but I am very comfortable using a figure of $130 per square foot to value the company's 8.4 million square feet of leasable space. Net of debt, that comes out to around $38 per share. I see upside to this valuation if NLOP can continue selling its well-leased properties at $170/square foot or higher, and its "fixer-uppers" at $75/square foot or better. I am happy to hold our NLOP shares until we achieve a price much closer to liquidation value.

I should note that our investment in Net Lease Office Properties may be volatile. Shares may bounce around considerably on changes in economic sentiment, the direction of interest rates, and investor enthusiasm (or the lack thereof) around the office market. I consider the significant upside potential well worth the volatility.

I remain enthusiastic about another large holding of ours, **FitLife Brands**. Last I reported, FitLife had just closed on its acquisition of the assets of MusclePharm, a once high-flying exercise supplements brand that been mismanaged into bankruptcy. The potential synergies for FitLife and MusclePharm were obvious, with FitLife able to use its existing manufacturing relationships to create the product and then leverage its strong online channels to offer the product to customers. One of FitLife's first tasks is to convince online retailers that previously stocked MusclePharm products to do so again. While FitLife has yet to report fourth quarter results, it appears progress is being made. Retailer iHerb.com, once a significant seller, now indicates MusclePharm products are "coming soon." FitLife shares have performed well. The market is giving the company credit for its successes in acquiring choice assets out of bankruptcy and optimizing them. I don't think the company is anywhere close to running out of opportunities.

Crawford United gave us some good news, authorizing a buyback of up to 300,000 shares, or 8.5% of the total outstanding. Shares performed well in 2023 as the previous year's motivated seller quit flooding the market with shares. Still, Crawford United trades at only around 8x earnings despite a strong earnings trajectory and the lowest debt in several quarters. Following the buyback authorization, shares jumped from the high $20s into the low $30s. Sometimes all it takes to catalyze a reaction in a stock is management communicating to the market that it thinks shares are cheap and it is willing to do something about it. It really is that simple. Just after year-end, Crawford United announced its first acquisition in a while, paying $7 million to buy Heany Industries, a 92-year-old provider of industrial coatings and ceramics, mainly to the aerospace industry. Depending on how Crawford chose to finance the deal and the earnings multiple they paid, I think the acquisition could increase cash earnings by 25 cents per share.

Another recent addition to our portfolio is **MRC Global**, a distributor to oil & gas drillers, natural gas utilities, and other industries—think fittings, valves, pipes, and the like. MRC is an "ok" business—neither wonderful nor terrible, but simply boring and profitable. It is exposed to the ups and downs of the oil & gas market, but it has made strides to diversify its business into other, less cyclical markets. Most importantly, MRC has an unimpressive track record as a public company and some unhappy owners, and for those reasons I believe the company will be sold.

MRC Global's history stretches back to its founding in 1921, as McJunkin Supply Company. The company would enjoy several decades of prosperity, culminating in a large investment from Goldman Sachs in 2006. Following a series of mergers and acquisitions, Goldman renamed the company "MRC Global", took it public in 2012, and then sold its remaining MRC shares the following year. This exit was well-timed, as MRC shares soon began a long decline, driven by a combination of inopportune investments and excess financial leverage. In 2015, urgently needing capital, the company turned to respected dealmaker Henry Cornell, a Goldman alum who was instrumental in MRC's creation. Cornell Capital put up $363 million to buy convertible preferred stock and MRC used the fresh capital to pay down debt and restore its firepower for additional acquisitions.

Cornell probably expected to earn a good cash yield for a few years, then convert the preferred shares and sell as MRC's profits recovered and its valuation grew, but the rebound never really came. Following the investment, MRC's operating income reached only around 1/3 of 2013 levels before another round of write-offs and losses in 2020 as COVID caused energy demand to plummet. Recent results have been better—the company has built a good line of business supplying gas utilities and industrials, and debt has been paid down substantially—but MRC has been a disappointment for Cornell Capital.

TABLE III: World Allocation, 12/31/23 (%)

United States	68.4
Eurozone	10.7
Canada	10.6
Poland	7.1
Denmark	1.9
Other	1.3
Total	***100%***

Turning to the present, MRC has a term loan that comes due in September 2024. The company wants to refinance the loan, but Cornell Capital, which clearly wants out of this underwhelming investment, has blocked its efforts to date, filing a lawsuit claiming MRC must seek Cornell's consent on the terms of the new debt. MRC expects to be able to pay off the term loan by drawing on its asset-backed line of credit, but this is a less than ideal solution. Enter activist Engine Capital, owner of 4% of MRC Global shares. Engine Capital has called for MRC Global to seek a sale, arguing it is the best way to cash out Cornell Capital and achieve a satisfactory result for all shareholders. In Engine's view, MRC's expressed strategy of continued mergers and acquisitions is unfeasible given the risks of ongoing litigation with Cornell Capital and MRC's high cost of capital. I wholeheartedly agree. On October 30, Bloomberg reported that MRC Global is working with financial advisors to explore a sale. If MRC Global is sold, I believe it could fetch a price in the mid-to-high teens.

To recap: MRC's biggest capital provider is unhappy; an activist is unhappy; long-term shareholders likely are too, having lost half their investment since the IPO; and management can't be having much fun either with the headache of litigation and the looming term loan maturity. Something has to give, and I believe it will be MRC Global's existence as an independent public company.

We continue to hold our investments in various banks, the largest being **United Bancorporation of Alabama** and **BankFirst Capital Corporation**. Both are recipients of cheap permanent capital from the US Treasury, and both were strongly profitable in 2023 despite the challenging backdrop of rapidly increasing interest rates and deposit costs. Each bank trades at a mid-single digit multiple of earnings, and each is poised to increase these earnings in 2024. The two banks are pursuing different strategies with BankFirst focused on growth by acquisition and United Bancorporation of Alabama focused on profitable niche lending and services, but both are cheap and well-run institutions. I think an uplisting to the NASDAQ is in the cards for each within a few years.

The fund also owns a variety of community banks with extremely illiquid shares, some of them traded on the expert market. These banks are among the cheapest securities I can find, with many trading at some combination of price-to-earnings multiples under 5, less than 60% of tangible book value, or sustainable double-digit dividend yields. Some of these shares may go nowhere for quite some time, but I see value in owning them as long as the underlying banks produce reasonable returns on equity and maintain high lending standards. As long as tangible book value per share grows at a healthy pace, shareholders will earn a nice return when these banks are acquired or their shares become more liquid as the bank grows.

TABLE IV: Sector Breakdown, 12/31/23 (%)

Financials	17.7
Industrials	15.2
Information Technology	15.1
Consumer Staples	12.0
Communications	9.7
Real Estate	9.5
Consumer Discretionary	9.1
Materials	6.9
Energy	4.0
Health Care	0.9
Utilities	0.0
Total	***100%***

It's strange to think that just six or so months ago, many were predicting calamity for the banking sector based on the high-profile failures of a few regional institutions. According to the doomsayers, deposits would either flee or become unmanageably expensive, bank loan books were houses of cards, and growing securities losses would obliterate any remaining equity. And as usual, when "everyone knows" that a sector is teetering on the precipice of financial oblivion, that is the time to buy with both hands. Of course, it's easy to say so with the benefit of hindsight. Alluvial did add to our bank holdings as valuations hit their low points last year, but I wish I had bought even more.

LICT Corporation is a long-time Alluvial Fund holding. Shares have moved up and down in recent years, but mostly sideways. LICT continues to make moves, spinning off its Michigan operations, acquiring a Utah telecom, and repurchasing 8.6% of shares outstanding over the last three years, but the stock just won't head higher and stay there. I think this is the year that changes. Beginning this year, LICT has a major increase in annual federal subsidies heading its way: over $13 million annually for 15 years, or $762 per LICT share. This will result in a major profit uplift. Subsidies included, LICT will be the cheapest public telecom in the United States, trading at only 4.5x 2024 EBITDA. Reasonable, if not a little expensive for a traditional wireline-heavy telecom, but far too cheap for a modern, operation that derives most of its revenue and earnings from broadband services.

Seneca Foods has been active. Shares dipped after quarterly results but have since recovered. In November, the company acquired the Green Giant canned vegetables business from B&G Foods.

Seneca was already active in co-manufacturing product for B&G, so this acquisition should result in increased gross profit for Seneca with little incremental investment or expenditure. Besides the B&G Foods assets, Seneca Foods has been very active in repurchasing its own shares, reducing the quantity outstanding by nearly 6% from July through October. I expect to see additional repurchase activity when the company reports in February. Buying back shares while they trade at a mid-single digit multiple of earnings is an excellent use of capital.

The **Logistec Corporation** buyout closed in early January, allowing us to realize a nice gain on that special situation. Our remaining Canadian holdings are **Hammond Manufacturing** and **Supremex Inc.**, two modestly-valued manufacturers. As the mighty American stock market hits news highs, I think already neglected markets like Canada's could offer even more mis-priced securities. Fertile grounds for finding opportunities if you don't mind under-performing in the short run. The fund is currently about 70% allocated toward US holdings, a figure I consider slightly above the long-term target. Though I believe many foreign markets are cheaper than US markets, I keep running across US special situations just too good to ignore. The has caused the breakdown between our US and international holdings to swing toward the US. I expect the pendulum to swing back a bit in 2024.

With our seventh year of operations in the books, I want to thank you once again for investing in Alluvial Fund. I started Alluvial in hopes of spotlighting the opportunities in the market's dustier corners, and thus far, it is working. Markets look a lot different than when Alluvial Fund launched in 2017 and even more different than when I began managing capital a decade ago. There are fewer good quality OTC-traded companies, and fewer small public companies in general. The barriers to researching and investing in foreign companies are lower. It seems these changes should result in fewer opportunities in the market segments where Alluvial focuses, but somehow there is never a shortage of neglected, misunderstood securities here and there around the globe.

Thanks to a good start to the year and some new capital from limited partners, Alluvial Fund is at an all-time high both in terms of total returns to LPs and assets under management. I will try with all my might to deliver a good year—a good year for all of us, as the entirety of my money is invested in Alluvial Fund. I hope you are well, and I look forward to reporting to you again a few months from now. In the meantime, please do not hesitate to reach out with questions or comments about the portfolio, or just to catch up. I welcome your calls and e-mails.

Best Regards,

Dave Waters, CFA
Alluvial Capital Management, LLC

Disclosures
Investment in Alluvial Fund are subject to risk, including the risk of permanent loss. Alluvial Fund's strategy may experience greater volatility and drawdowns than market indexes. An investment in Alluvial Fund is not intended to be a complete investment program and is not intended for short-term investment. Before investing, potential limited partners should carefully evaluate their financial situation and their ability to tolerate volatility. Alluvial Capital Management, LLC believes the figures, calculations and statistics included in this letter to be correct but provides no warranty against errors in calculation or transcription. Alluvial Capital Management, LLC is a Registered Investment Advisor. This communication does not constitute a recommendation to buy, sell, or hold any investment securities.

Performance Notes
Net performance figures are for a typical limited partner under the standard fee arrangement. Returns for partners' capital accounts may vary depending on individual fee arrangements. Alluvial Fund, LP has a fiscal year end of December 31, 2023 and is subject to an annual audit by Cohen & Company. Performance figures for year-to-date periods are calculated by NAV Consulting, Inc. Year-to-date figures are unaudited and are subject to change. Gross performance figures are reported net of all partnership expenses. Net performance figures for Alluvial Fund, LP are reported net of all partnership expenses, management fees, and performance incentive fees.

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